

Message Text

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GUATEMALA FOR ROCAP

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TAGS: ECON, EFIN, PN
SUBJECT: TORRIJOS ANNOUNCES TAX INCREASES IN LOYALTY DAY SPEECH

REF: PANAMA 8606 (NOTAL)

1. SUMMARY: SEVERAL PROPOSED TAX ACTIONS BY THE GOP WERE ANNOUNCED IN VERY GENERAL TERMS BY CHIEF OF GOVERNMENT TORRIJOS DURING COURSE OF HIS LOYALTY DAY SPEECH DECEMBER 19. MOST INVOLVED TAX INCREASES ALTHOUGH SOME MINOR DECREASES WERE INCLUDED. INFORMATION WAS INCOMPLETE AS TO RATES AND OTHER DETAILS, PRECLUDING ANY INDICATION OF REVENUE IMPACT AND MAKING IT IMPOSSIBLE TO INTERPRET THE ANNOUNCEMENT FROM A FISCAL STANDPOINT. END SUMMARY.

2. THE MOST IMPORTANT MEASURE IS A 5 PERCENT SALES TAX-- PANAMA'S FIRST--PRESUMABLY TO BE LEVIED ON ALL RETAIL TRANSACTIONS. HOPE BUT NO PROMISE WAS HELD OUT FOR EXEMPTING FOOD
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AND MEDICINE. TELEPHONE CHARGES ARE TO BE RAISED FROM THE PRESENT STANDARD \$6.50 PER MONTH TO NO MORE THAN \$10 PER MONTH.. THIS IS TO PERMIT IMPROVED TELEPHONE SERVICE IN THE PROVINCES AND BETTER MAINTENANCE. ELECTRICITY RATES ARE TO INCREASE (AMOUNT UNSPECIFIED) TO COVER THE POWER COMPANY'S OPERATING LOSSES. ALSO, THERE WILL BE

HIGHER COSTS FOR IMPORTED FUEL (OPEC PRICE RISES) SINCE POWER OUTPUT FROM THE NEW BAYANO DAM HAS BEEN SET BACK BY DROUGHT CONDITIONS. TAXES ON BEER (\$3.6 MILLION IN 1975) AND CIGARETTES (\$6.4 MILLION IN 1975) WILL BE INCREASED BY AN UNSPECIFIED AMOUNT.

3. THE FOLLOWING TAXES WILL BE REDUCED: RESIDENTIAL PROPERTY VALUED UNDER \$10,000 WILL BE TAX EXEMPT; INCOME AT THE "BASIC INCOME" LEVEL, LOOSELY INDICATED TO BE SOMETHING UNDER \$2,000 ANNUALLY WOULD BE TAX EXEMPT (THIS INCOME LEVEL IS CURRENTLY TAXED AT 2 1/2 - 3 1/2 PERCENT RATES); ANY AGRICULTURAL ACTIVITY THAT NETS LESS THAN \$25,000 ANNUALLY IS TO BE TAX EXEMPT, LEAVING ONLY AN ESTIMATED FOUR HUNDRED FARM ENTERPRISES SUBJECT TO INCOME TAX.

4. COMMENT: THE PRESENTATION SETS FORTH AN ARRAY OF MEASURES WHICH IS IMPRECISE, UNCLEAR AND WITHOUT AN EFFECTIVE DATE. IT THEREFORE CANNOT BE JUDGED IN TERMS OF ITS FISCAL IMPACT. THIS COULD HAVE BEEN INTENTIONAL TO PERMIT THE GOP FLEXIBILITY IN SHAPING A FINAL PACKAGE IN THE LIGHT OF PUBLIC REACTION TO THE ANNOUNCED INCREASES. WE BELIEVE THAT THE ABOVE MEASURES PROBABLY REPRESENT AN INTENDED ANNUAL NET REVENUE INCREMENT OF \$20-25 MILLION, BASED ON CERTAIN ASSUMPTIONS AND ESTIMATES AS FOLLOWS: 5 PERCENT SALES TAX, PLUS \$18 MILLION; TELEPHONE, PLUS \$4; ELECTRICITY, PLUS \$4; BEER AND CIGARETTES, PLUS \$2; INCOME TAX, MINUS \$4; OTHER REDUCTIONS, MINUS \$1. A PACKAGE OF THIS SIZE WOULD PROVIDE ESSENTIAL EVIDENCE TO CREDITORS OF THE GOP'S DETERMINATION TO TAKE TOUGH MEASURES IN ORDER TO PUT ITS FISCAL HOUSE IN ORDER. A SURPRISING FEATURE OF THE PACKAGE IS ITS LIMITED OFFICIAL USE

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PRONOUNCED REGRESSIVENESS, WITH SO LITTLE INCREASE IN THE TAX BURDEN OF THE AFFLUENT.

THE POLITICAL IMPLICATIONS OF THIS SPEECH ARE DISCUSSED IN REFTEL. ITS ECONOMIC CONSEQUENCES--LIKE THE FISCAL--WILL DEPEND ON DETAILS OF THE PACKAGE; BUT THESE TAX MEASURES WILL HIT ALL PANAMANIAN IN THE POCKETBOOK. THE NET EFFECT WILL BE A CONTRACTION OF DEMAND AND A POSSIBLE WORSENING OF THE BUSINESS PICTURE HERE.
JORDEN

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